



State of Utah
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL, GAS AND MINING

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October 5, 2001

CERTIFIED RETURN RECEIPT
7000 0520 0021 7582 9576

Daniel Arima
Environmental Coordinator
U.S. Energy Corporation
877 North 8th West
Riverton, Wyoming 82501

Re: Five-Year Review of Reclamation Surety Estimate, U.S. Energy Corporation, Velvet Mine,
M/037/040, San Juan County, Utah

Dear Mr. Arima:

Thank you for providing the requested information regarding the five-year review status of your Velvet Mine, located in San Juan County, Utah. The last surety estimate for this mine was \$63,900 in 1998 dollars. Upon review of the information furnished by U.S. Energy, which stated that there had been no changes at the site, we find we only need to escalate the present bond for a five-year period.

The surety for the Velvet Mine escalated to the year 2006 is \$88,200. A Surety Estimate Update is attached for your use. Please provide the updated surety within 60 days or no later than December 11, 2001.

If you provide a rider to the existing surety, no other paperwork will be required. However, if you choose to post another form of surety, please contact Joelle Burns at (801) 538-5291 to obtain the current bonding forms or you may access the current forms on the internet at www.nr.utah.gov. If you choose to post a new form of surety, you will also need to replace the Reclamation Contract, which is found on the web along with the bonding forms.

If you are unable to provide the surety within this timeframe, please contact the Division with justification for requesting additional time. Thank you for your help in keeping the surety current. If you have any questions concerning this letter, please contact Doug Jensen at (801) 538-5382.

Sincerely,

D. Wayne Hedberg
Permit Supervisor
Minerals Regulatory Program

jb

Attachment: Surety estimate update

cc: Ted McDougall, BLM, Monticello FO
Doug Jensen, DOGM

M37-40-bond-escal.doc

SURETY ESTIMATE UPDATE

U.S. Energy Corporation

Velvet Mine

FILE # M/037/040 San Juan County, Utah

Prepared by Utah Division of Oil, Gas & Mining Last Update DATE Oct 8, 1993

DESCRIPTION:

- Previous reclamation surety estimate was \$63,900 in year 1998 dollars
- Approximate original estimate made in 1988 for \$55,271
- This update adjusts the surety amount for escalation only.
- Escalation factors through 2000 are actual Means Historical Cost Indices
- Escalation factors for the years 2001 and beyond are predicted

-Total disturbed area = 27 ACRES

CALCULATIONS $F = P(1 + i)^{**n}$	YR	ESCAL FACTOR	BOND AMOUNT
	1987	0.0195	\$0
	1988	0.0181	\$55,271
	1989	0.0177	\$56,249
	1990	0.0077	\$56,682
	1991	0.0127	\$57,402
	1992	0.0221	\$58,671
	1993	0.0261	\$60,202
	1994	0.0321	\$62,135
	1995	0.0193	\$63,334
F = Future Sum	1996	0.0242	\$64,867
P = Present Sum	1997	0.0236	\$66,397
i = Escalation Factor	1998	0.0502	\$69,731
n = number of periods	1999	0.0200	\$71,125
	2000	0.0312	\$73,344
Three Yr Average = 3.12%	2001	0.0312	\$75,633
Used to Project 5 Yrs	2002	0.0312	\$77,992
From the Year 2000	2003	0.0312	\$80,426
	2004	0.0312	\$82,935
	2005	0.0312	\$85,523
	2006	0.0312	\$88,191
Updated Surety Amount Rounded (2006-\$)			\$88,200
** Average cost per acre =	\$3,267	(\$/ACRE)	